

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6312**

**BILL NUMBER:** HB 1001

**NOTE PREPARED:** Dec 29, 2007

**BILL AMENDED:**

**SUBJECT:** Property Tax Relief.

**FIRST AUTHOR:** Rep. Crawford

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill has the following provisions:

*Elimination of Elected County and Township Assessors:* This bill replaces elected county assessors with county assessors appointed by the county fiscal body and eliminates township assessors.

*Circuit Breaker:* This bill increases the circuit breaker credit for homesteads and certain rental property.

*Homeowner's Deduction:* The bill also provides an additional 35% supplemental standard deduction for homesteads.

*2008 Homestead Credit:* The bill provides an additional homestead credit for 2008.

*PTRC/Homestead Credits:* The bill eliminates state-reimbursed homestead credits and property tax replacement credits in 2009.

*Levy Elimination:* This bill also eliminates: (1) school tuition support levies; (2) school transportation fund levies; (3) county medical assistance to wards fund levies; (4) family and children's fund levies; (5) children's psychiatric residential treatment services fund levies; (6) children with special health care needs county fund levies; (7) the State Forestry Fund levy; (8) the State Fair Fund levy; and (9) the Department of Local Government Finance data base management levy.

*Levy Controls:* This bill changes the formula for determining the maximum permissible growth in certain levies and eliminates the authority of a county to restrict review of levies, tax rates, and budgets by a county

board of tax and capital projects review.

*Referendum:* This bill requires a referendum on bond issues and lease agreements payable from property taxes or local income taxes and that cost at least 1% of a political subdivision's total net assessed value or \$10,000,000. It permits a referendum to increase a levy in excess of the amount approved by the county board of tax and capital projects review.

*LOIT:* The bill replaces the authority of a county to impose an annual levy growth tax rate, a public safety tax rate, and a property tax replacement tax rate with a single rate not to exceed 1%.

*Sales Tax Increase:* This bill increases the Gross Retail and Use Tax to 7%.

*Study Committee:* This bill establishes the School Transportation Funding Formula Study Committee.

This bill also makes appropriations.

**Effective Date:** July 1, 2008; January 1, 2009; July 1, 2009.

**Summary of NET State Impact:** The following represents the net impact on the state General Fund and Property Tax Replacement Fund for FY 2008 through FY 2010.

Table 1. Net Impact on the General Fund and the Property Tax Replacement Fund (\$M).						
	FY 2008		FY 2009		FY 2010	
Provision	Rev	Exp	Rev	Exp	Rev	Exp
Homestead Credit		350.0		350.0		
Eliminate PTRC/Homestead Credits				(1,014.3)		(2,028.5)
School General Fund Levy Takeover				1,083.8		2,207.6
School Transportation Levy Takeover				241.6		494.3
Child Welfare Levies Takeover				228.0		469.2
State Fair/State Forestry/DLGF				3.9		7.9
Sales Tax (+ 1%)	151.1		948.9		991.4	
Redirect Slot Wagering Tax			27.9		87.5	
Total	151.1	350.0	976.8	893.0	1,078.9	1,150.5
Net Difference	(198.9)		83.8		(71.6)	
Note: State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.						

**Explanation of State Expenditures:** *Elimination of Elected County and Township Assessors:* The DLGF will need to adjust current exams that allow books to be open and develop instructions for the transfer of

records from holders of eliminated offices. Both of these functions are within the current scope of agency work. Also, the DLGF will determine the proper place of assessment if disputes arise. Currently, the county assessor makes the determination if the dispute is between townships, and DLGF has responsibility for disputes between counties.

*PTRC/Homestead Credits:* The state currently pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits (HSC) are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

The maximum expenditure for PTRC and HSC is \$2,028.5 M in each of CY 2008 and CY 2009. These credits are paid from the Property Tax Replacement Fund. In addition, \$250 M in supplemental homestead credits will be paid from the Property Tax Reduction Trust Fund in CY 2008 under current law.

After CY 2008, all PTRC and homestead credits would cease under this bill. State savings are \$2,028.5 M in CY 2009 and \$2,028.5 M in CY 2010 (assuming current funding trends would have continued), or \$1,014.3 M in FY 2009 and \$2,028.5 M in FY 2010.

*2008 Homestead Credit:* This bill appropriates an additional \$700 M from the state Property Tax Replacement Fund for homestead credits to be paid in May and November of 2008. If money in the PTRF is insufficient to make the required distributions, the deficiency is to be temporarily transferred from the state General Fund.

*Levy Controls:* Under this bill, budgets, rates, and levies would be reviewed and certified locally, rather than by the DLGF, beginning in CY 2009. The DLGF's total budget appropriation for FY 2009 is \$5.6 M, covering both budget and assessment oversight duties. A February 2007 report from the DLGF indicated that 22 out of 65 employees were assigned to the Budget Division, with 16 of those being field representatives. This bill's elimination of the DLGF's budget oversight duties would result in either a cost savings to the state and/or a reallocation of resources to the DLGF's other duties. The bill requires the DLGF and the State Board of Accounts to assist counties in the transition, through December 31, 2009.

*Levy Elimination:* The state would make distributions to replace the levies that would be eliminated under this bill. The cost is estimated at \$1,557.3 B in FY 2009 and \$3,179 in FY 2010.

*Sales Tax Changes:* Implementing the Sales Tax rate increase will increase the administrative costs of the Department of State Revenue (DOR). The DOR will have to amend the Sales Tax forms, procedures, and rules, as well as update computer software. It is estimated there are sufficient resources currently available to the DOR to implement this change.

*Study Committee:* The bill establishes the School Transportation Funding Formula Study Committee to make recommendations on a school transportation formula to the 2009 General Assembly. The committee consists of eight legislators. The cost of the committee would probably be less than \$9,500.

**Explanation of State Revenues:** *Sales Tax Changes:* The changes to the Sales Tax contained in this bill will increase state revenues by approximately \$151.1 M in FY 2008, \$948.9 M in FY 2009, and \$991.4 M in FY 2010.

The bill increases the Sales Tax rate by 1%, from 6% to 7%, beginning April 1, 2008. The April 1, 2008, effective date means that there will be two months of remittances by retailers in FY 2008 (May and June). The bill also changes the distribution formula for Sales Tax revenues as follows.

	<b>Distribution Formula</b>	
	<b>Current</b>	<b>Under Bill</b>
<b>PTRF</b>	50.000%	0.000%
<b>State General Fund</b>	49.067%	99.196%
<b>Public Mass Transportation Fund (PMTF)</b>	0.760%	0.654%
<b>Industrial Rail Service Fund (IRSF)</b>	0.033%	0.028%
<b>Commuter Rail Service Fund (CRSF)</b>	0.140%	0.122%
<b>TOTAL</b>	<b>100.00%</b>	<b>100.00%</b>

The bill repeals the current Property Tax Replacement Fund (effective January 1, 2009) and directs all new revenues from the Sales Tax increase to be deposited in the state General Fund, while holding the other funds “harmless”.

The table below shows the impact on the revenue deposited in the funds that are currently part of the Sales Tax distribution formula.

	<b>Impact on Funds (\$M)</b>								
	<b>FY 2008</b>			<b>FY 2009</b>			<b>FY 2010</b>		
	<b>Current</b>	<b>Under Bill</b>	<b>Change</b>	<b>Current</b>	<b>Under Bill</b>	<b>Change</b>	<b>Current</b>	<b>Under Bill</b>	<b>Change</b>
<b>PTRF</b>	\$468.6	\$0.0	(\$468.6)	\$2,937.3	\$0.0	(\$2,937.3)	\$3,068.7	\$0.0	(\$3,068.7)
<b>State G.F.</b>	\$459.8	\$1,079.5	\$619.7	\$2,882.5	\$6,768.6	\$3,886.1	\$3,011.5	\$7,071.4	\$4,060.0
<b>PMTF</b>	\$7.1	\$7.1	\$0.0	\$44.6	\$44.6	\$0.0	\$46.6	\$46.6	\$0.0
<b>IRSF</b>	\$0.3	\$0.3	\$0.0	\$1.9	\$1.9	\$0.0	\$2.0	\$2.0	\$0.0
<b>CRSF</b>	\$1.3	\$1.3	\$0.0	\$8.2	\$8.3	\$0.1	\$8.6	\$8.7	\$0.1
<b>TOTAL</b>	<b>\$937.2</b>	<b>\$1,088.3</b>	<b>\$151.1</b>	<b>\$5,874.6</b>	<b>\$6,823.4</b>	<b>\$948.9</b>	<b>\$6,137.5</b>	<b>\$7,128.8</b>	<b>\$991.4</b>

The FY 2008 estimates represent a two-month adjusted amount due to the April 1, 2008, effective date of the rate increase. These estimates are based on the April 16, 2007, State Revenue Forecast, as adjusted to account for the elastic impact of a Sales Tax increase on consumer spending. The estimate was also decreased by \$1.66 M in FY 2009 and \$1.73 M in FY 2010 since there was no decrease in the collection allowance to hold harmless those retail merchants with Sales Tax liability less than or equal to \$600,000 in the year preceding the year of remittance.

This bill decreases the collection allowance for certain retail merchants beginning July 1, 2008. Due to this change, Sales Tax collections will increase by \$200,000 in FY 2009 and \$215,000 in FY 2010. Currently, retailers that remit more than \$600,000 in Sales Taxes in the immediately preceding year are entitled to keep 0.3% of their remittances in the current year, so long as they remit in a timely manner. The bill decreases this collection allowance from 0.3% to 0.25%. The estimated increase in collections is based on 2005 collection allowance statistics applied to the revenue estimate for Sales Tax collections occurring after the 1% rate increase that also appears in this bill. Although this provision is effective April 1, 2008, the bill provides that

the decreased collection allowance applies only to those reporting periods occurring after June 30, 2008.

*Revenue Distribution Changes:* The bill redistributes:

- (1) Sales Tax revenue from the PTRF to the state General Fund, effective May 1, 2008.
- (2) Individual Income Tax and Riverboat Wagering Tax revenue from the PTRF to the state General Fund, effective January 1, 2009.
- (3) Slot Machine Wagering Tax from the Property Tax Reduction Trust Fund to the state General Fund, effective January 1, 2009.

Under current statute, 49.067% of Sales Tax revenue, 14% of Individual Income Tax revenue, and 37.5% of Wagering Tax revenue collected from the French Lick casino is distributed to the PTRF. In addition, Wagering Tax revenue collected from the remaining 10 riverboat casinos after local revenue distributions and deductions for Gaming Commission administrative expenses and local revenue sharing is distributed to the PTRF. Slot Machine Wagering Tax revenue from slot machine operations at Hoosier Park and Indiana Downs is currently to be distributed to the Property Tax Reduction Trust Fund.

*Redirection of Slot Wagering Tax* - The current revenue estimate for the Slot Machine Wagering Tax is \$77.9 M in FY 2009 and \$87.5 M in FY 2010. However, \$50 M of the anticipated FY 2009 tax revenue was appropriated in HEA 1001-2007 for the CY 2008 Homestead Credits. This would leave an estimated \$27.9 M in FY 2009 and \$87.5 M in FY 2010, which would revert to the General Fund with the repeal of the Property Tax Reduction Trust Fund.

*Class A Misdemeanor for Assessing Duties:* By including all assessing officials and representatives of the DLGF, the bill increases the pool of potential violators of provisions concerning proper assessment and assessing responsibilities, Class A misdemeanors. If additional court cases occur and fines are collected, revenue to both the Common School Fund (from fines) and the state General Fund (from court fees) would increase. The maximum fine for a Class A misdemeanor is \$5,000.

**Explanation of Local Expenditures:** *Elimination of Elected Township and County Assessors:* The bill does not delete or diminish any responsibilities or administrative functions currently assigned in statute to county or township assessors, but rather transfers them to appointed county assessors. If the appointed county assessor can perform or contract for the performance of these property tax assessing duties more efficiently than the township governments, cost savings will result. Any change in the number of individual appraisers needed to complete an assessment or reassessment is based on the situation of the individual township and county. Short-term costs may increase to organize and transfer records and tangible property from township assessors and elected county assessors to appointed county assessors.

*Class A Misdemeanor for Assessing Duties:* A Class A misdemeanor is punishable by up to one year in jail.

*Referendum:* The bill would require a referendum if a taxing unit (1) proposes spending above the spending and property tax limitations in the bill or (2) requests a bond if the bond is more than \$10 M or 1% of the assessed value of the unit. The referendum on levy or spending increases would be held during a general election or primary. If there is no general or primary election scheduled, a special election could be held. The referendum on bonds could be held during a primary, general, or special election. In CY 2007 the DLGF approved 67 school building projects for a total of about \$1.7 B.

County election boards may need additional appropriations to cover the expenses of a special election.

Expenses to run an election include precinct election board per diem, rental of a facility for polling (if necessary), and/or voting equipment (if necessary.) Based on a small sample of Indiana counties, per diem for election board members range from \$65 to \$150 for inspectors and from \$40 to \$100 for judges, clerks, and sheriffs.

*Bond Limit for Review:* Currently, a unit's capital project is required to be reviewed by the County Board of Tax and Capital Projects Review if the project is a controlled project of more than \$7 M. The bill would require review of projects more than the greater of \$2 M (the threshold for a controlled project) or 1% of the unit's AV. There are about 2,681 local units. The bill would reduce the threshold for about 534 of the tax units. The impact will depend on changes made to projects that will now require review by the board.

*School General Fund Expenditures:* Under current law schools can use the school General Fund for any school lawful expenditure except transportation. The bill would prohibit general fund expenditures for debt service or costs attributable to capital outlays. For FY 2007, schools spent about \$30.2 M from the school general funds on these costs (\$11.1 M on debt service and \$19.1 M on capital outlays). Schools would need to transfer these expenditures to the debt service fund and capital projects fund. School debt service and capital project fund levies could potentially increase by an amount corresponding to the reduction in the school general fund expenditures.

*School Formula:* The bill eliminates the tuition support levy calculations. The CY 2009 tuition support levy would have been about \$2,167.6 M. The bill increases the tuition support appropriation for FY 2009 by about \$1,083.8 M, the reduction in the tuition support levy for the first six months of CY 2009. The bill also specifies that the additional appropriation is not subject to the CY 2009 maximum state tuition support distribution.

*School Transportation:* The bill eliminates the school transportation fund levy for CY 2009 and appropriates from the state General Fund for FY 2009 an amount equal to the loss in revenue due to the removal of the levy. The additional appropriation would be about \$241.6 M. Each school corporation would receive a distribution for the state equal to the loss in revenue for the first six months of CY 2009.

*Background on Assessors* - Effective July 1, 2008, the position of county assessor and the position of township assessor are removed from the office primary and general election ballots. The office of elected county assessor will cease to exist on October 31, 2008 and the office of appointed county assessor begins on November 1, 2008. Incumbent elected county assessors may continue as appointed county assessors if they have earned Level Two Appraiser-Assessor certification. To fill appointed county assessor positions, three county assessor candidates are nominated by the county executive and the appointment is made by the county fiscal body. The county assessor serves at the pleasure of the county fiscal body. The elected office of township assessor and trustee-assessor are eliminated effective January 1, 2009. The duties of the township assessor and the assessing responsibilities of the trustee-assessors transfer to the appointed county assessor. Trustee-assessors remain in office as trustees to execute other responsibilities.

Currently, townships with a population of more than 8,000 elect a township assessor. Townships with a population between 5,000 and 8,000 may elect a township assessor if the legislative body of the township adopts a resolution indicating that a township assessor is necessary and the resolution is filed with the county election board. A township trustee in a township with less than 5,000 population serves as the township assessor. In 2000, there were 1,008 township assessors in Indiana, of which 827 are trustee-assessors.

**Explanation of Local Revenues:** *Class A Misdemeanor for Assessing Duties:* If additional court actions occur and a guilty verdict is entered, local governments would receive revenue from court fees. However, any change in revenue would likely be small.

*Standard Deduction:* Under current law, homesteaders receive a property tax standard deduction equal to the lesser of one-half of the homestead's gross assessed value or \$45,000 for taxes payable in 2008, \$44,000 for 2009, \$43,000 for 2010, \$42,000 for 2011, \$41,000 for 2012, and \$40,000 thereafter. Under this proposal, the schedule for the traditional deduction would remain the same.

However, homesteaders would receive an additional deduction beginning with taxes payable 2009 that would equal 35% of the homestead's gross AV after subtracting off the standard deduction). The total amount of the new deduction is estimated at \$53.5 B for taxes payable in 2009 and \$56.4 B for taxes payable in 2010.

*Levy Elimination:* Beginning with taxes payable in 2009, this bill would eliminate the property tax levies for several funds as follows.

<b>Fund Name</b>	<b>Est. 2009 Gross Levy (\$M)</b>	<b>Est. 2010 Gross Levy (\$M)</b>
State Fair	\$ 2.6	\$ 2.7
State Forestry*	5.2	5.4
County Family and Children	416.8	440.8
County Children's Psychiatric Residential Treatment Services	17.5	18.7
County Medical Assistance to Wards	13.7	14.4
Children with Special Health Care Needs	8.1	8.4
School General	2,167.6	2,247.6
School Transportation	483.1	505.4
<b>Total</b>	<b>\$ 3,114.5</b>	<b>\$ 3,243.4</b>
* State Forestry includes an amount distributed to the State Budget Agency for DLGF Database Management.		

The state would make distributions to replace the levies that would be eliminated.

*Tax Increment Financing (TIF):* The elimination of tax levies coupled with changes in the standard deduction and the elimination of PTRC would affect net tax rates. If the net tax rate is reduced in a TIF area, the net TIF proceeds would also be reduced. Currently, the TIF governing body may recover TIF proceeds that were lost due to the 60% PTRC on the school general fund levy through the imposition of a property tax levy. This bill would also allow the TIF governing body to recover TIF proceeds lost due to the elimination of levies.

*Excise Tax Revenue:* The current "excise taxes" (i.e., auto excise, commercial vehicle, and financial institutions taxes) to local units for a fund are based on the property tax levy that fund receives. For the school general fund, school transportation fund, the county medical assistance to ward fund, family and children's fund, children's psychiatric residential treatment services fund, and children with special health care needs fund, the bill would set the CY 2009 excise revenue to the 2008 amount.

The following chart shows the excise tax collections for CY 2006.

<b>CY 2006 Excise Tax Revenue Distribution</b>	
School General Fund	\$197.9 M
School Transportation Fund	41.9 M
Family & Children's Fund	29.0 M
Children's Psychiatric Residential Treatment Services Fund	1.5 M
Medical Assistance to Wards Fund	1.1 M
Children with Special Health Care Needs Fund	0.7 M
<b>Total</b>	<b>\$272.1 M</b>

*Levy Controls:* Under this bill, budgets, rates, and levies would be reviewed and certified locally by the county boards of tax and capital projects review, rather than by the DLGF. The county boards would have increased expenses as a result of these additional duties.

Under current law, maximum levy limits grow by the six-year average increase in Indiana nonfarm personal income. The growth factor is estimated at 4.3% in CY 2009 and 4.6% in 2010. The tax rate is dependent on the levy and assessed value. The overall budget is dependent on the levy and on other sources of revenue.

Under this proposal, the increase in each taxing unit's budget, rate, and levy would be limited to the six-year average increase in county personal income. This factor would be specific to each county. For comparison purposes, the current growth factor was 4.4% in 2005, 3.9% in 2006, and 4.0% in 2007. The average of the county factors would have been 4.3% in 2005, 3.9% in 2006, and 3.9% in 2007. The range by county for 2007 would have been 1.5% in White County to 6.9% in Hamilton County.

The limit would not apply to expenditures from cumulative funds, dedicated revenue sources, intergovernmental transfers, bond proceeds, or excessive tax levies approved by referendum.

*LOIT:* Under current law, in addition to traditional CAGIT, COIT, and CEDIT, each county may impose three additional LOIT rates. These are the LOITs for levy replacement (up to 1%), public safety (up to 0.25%, or 0.5% in Marion County), and property tax relief (up to 1%). As of November 2007, 11 counties have adopted one or more of these LOITs. Counties have until December 31, 2007, to adopt a LOIT to be effective in CY 2008.

Under this bill, counties would not be permitted to initially adopt these three LOITs after December 31, 2007. Instead, counties would be permitted to impose one new LOIT (up to 1%) that could be used to (1) fund levy replacement, (2) replace revenue lost from the property tax circuit breaker credits, and (3) provide additional unspecified tax relief. A 1% LOIT in each county would generate approximately \$1,271 M, statewide, in CY 2009.

**(Revised) Circuit Breaker:** Under current law, the property tax circuit breaker credit applies only to homesteads in 2008 and 2009, and all other property in 2010. The credit equals the amount by which net



taxes exceed 2% of gross assessed value. The credit is reduced by the amount of the credit that would otherwise be attributable to the school general fund. After 2009, the circuit breaker credit will apply to homesteads at the 2% gross AV threshold and to all other real and personal property at a 3% gross AV threshold.

This bill would make changes to the circuit breaker credit beginning in CY 2009. The circuit breaker would apply to homesteads at a 1% gross AV threshold, residential rental property and commercial apartments at a 2% gross AV threshold, and all other real and personal property at a 3% gross AV threshold. There would be no adjustment for credit amounts attributable to the school general fund.

The additional \$700 M in additional homestead credits authorized under this bill would reduce homeowners' taxes in CY 2008, thereby reducing the cost of the existing 2008 circuit breaker by an estimated \$16.0 M, from a total of \$20.4 M down to \$4.4 M.

Changes to the structure of the circuit breaker, coupled with the elimination of levies and the additional 35% homestead deduction would result in an increased circuit breaker cost beginning in CY 2009. The estimated total cost of the circuit breaker under the bill is \$689 M in CY 2009 and \$681 M in CY 2010, an increase of \$646 M in CY 2009 and \$393 M in CY 2010. Circuit breaker credits reduce revenue to local civil taxing units and school corporations. Additional credits further reduce revenues. Some of these lost revenues could be recouped from the additional LOIT authorized by this bill.

Note: The bill treats rental property that is used as a principal residence differently from second homes and short-term rentals. The circuit breaker threshold would be 3% under the bill if the home is a second home or short-term rental. However, data constraints do not allow identification of non-homestead residential properties as principal rentals or as something other. The reported estimates assume that all non-homestead residential property is subject to the 2% threshold. This may result in inflated circuit breaker cost estimates in some cases.

The bill states that civil taxing units and school corporations must fully fund debt and lease rental payments regardless of any revenue loss realized from the circuit breaker credits. Revenue reductions would be applied to other funds after debt and lease payments are fully funded. In addition, the bill would require the State Treasurer to withhold distributions from a taxing unit and to make debt payments on behalf of a taxing unit that fails to make a payment.

**State Agencies Affected:** DLGF; Legislative Services Agency; Department of State Revenue; State Board of Accounts; State Budget Agency; Treasurer of State.

**Local Agencies Affected:** All.

**Information Sources:** DLGF; Parcel-level assessment and tax data; DOR.

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